

ARIZONA CORRECTIONAL INDUSTRIES

Annual Report



Fiscal Year 2004



ARIZONA CORRECTIONAL INDUSTRIES

A DIVISION OF ARIZONA DEPARTMENT OF CORRECTIONS

Dear Director Schriro:

It is my privilege to present the Arizona Correctional Industries Annual Report for Fiscal Year 2004. The ADC strives to create a strong work ethic in inmates and prepare them to participate in the workforce.

This year, through the combined efforts of our 98 staff members and 1,595 inmate workers, ACI achieved record-breaking sales of \$20 million. ACI's contribution to the Arizona economy also exceeded previous years, with direct and indirect contributions of \$39.6 million and an additional \$1 million deposited in the State General Fund, as directed by the Legislature.

Inmates assigned to ACI programs worked a total of 2,547,297 hours; each hour representing an opportunity to learn marketable job skills, work habits, and financial responsibility.

ACI looks forward to our unique dual role as a correctional work program and a financially self-sufficient business enterprise—to the benefit of the Department of Corrections, the inmates, and the State of Arizona.

Sincerely,

William W. Branson
Acting Assistant Director
Arizona Correctional Industries



Greater Auto Auction
Phoenix, Arizona



Bedding Factory
Arizona State Prison Complex-Florence

The Benefits of Business Behind Bars

The Arizona Department of Corrections creates an environment for the inmate population that instills and reinforces civil and productive behavior. A core element of that environment is work.

As a correctional work program, Arizona Correctional Industries (ACI) puts inmates to work in an environment that closely resembles the work environment on the outside. This provides inmates with the opportunity to become workforce ready and law abiding taxpayers.

As a business enterprise, ACI produces a wide range of quality goods and services for its customers and generates significant financial benefits for the State of Arizona. Under the leadership of Director Schriro, ADC is in the process of implementing work-based education which integrates classroom learning and real world work activity. It is our goal that all of our programs will train inmates in current demand occupations, reduce the cost of government by supporting prison complex operations, providing skilled workers to ACI operations and benefiting our communities.

Inmates Frequently underem-

ployed or unemployed prior to incarceration, many inmates enter the Department of Corrections with few job skills and poor work habits. Through ACI's diverse operations and programs, inmates learn marketable job skills and experience first-hand the work habits and work ethic required to obtain and maintain employment upon release. In fiscal year 2004, a total of \$1,763,145 deductions were made. This lays the foundation for responsible, self-sustaining behavior and encourages inmates to consider the impact of their crime on their families and victims.

Institutions In a time of overcrowded prisons and under-funded

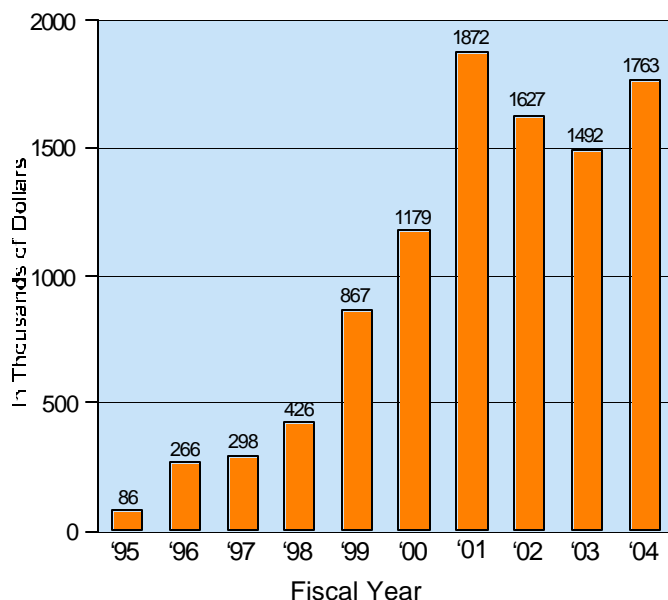
INMATE WAGE DEDUCTIONS Distribution by Type

Taxes	\$ 127,604
Room and Board	1,157,318
Family Support	39,693
Victim's Compensation	108,800
Court Order Restitution	236,667
Alcohol Abuse and Treatment Fund	87,108
Miscellaneous*	5,885

*Includes deductions for disciplinary and compassionate restitution, and filing fees.

INMATE WAGE

DEDUCTIONS



programs, ACI promotes safety and security by serving daily as an incentive for inmates to engage in model behavior which is consistent with Director Schriro's Parallel Universe. ACI jobs are earned by inmates whose institutional conduct is good and work and education achievements are noteworthy. ACI maintains high standards of work performance and conduct for inmates assigned to its industries.

Customers ACI customers include Arizona State Agencies, schools, cities, and municipalities. They receive quality goods and services at reasonable prices, allowing them to make more cost-effective use of the taxpayer dollars allocated to them. ACI also contracts with the private sector to provide consistent and reliable workers for businesses that have been unable to meet their work force requirements through the traditional labor market.

State of Arizona ACI contributes to the economic prosperity of the State of Arizona in five distinct ways.

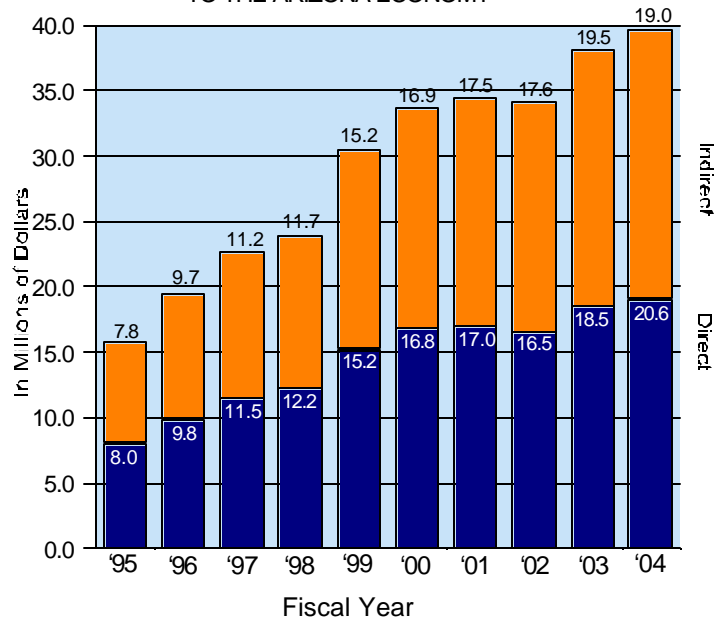
First, ACI is a financially self-sufficient program of the Arizona Department of Corrections. Receiving no financial support from the taxpayers, the program operates entirely on revenues generated from its business activities.

Second, deductions from inmate wages (including taxes, room and board, and family support) relieve taxpayers of some of the expense of incarceration. During fiscal year 2004, inmate wage deductions totaled \$1,763,145.

Third, ACI contributed \$1 million directly to the State General Fund in fiscal year 2004.

ACI CONTRIBUTIONS

TO THE ARIZONA ECONOMY



Direct contributions represent expenditures for goods and services, and staff compensation. Indirect contributions represent demand for goods and services created by ACI operations and enterprises.

Fourth, in support of its industries and enterprises, ACI purchases goods and services, pays staff, and creates a demand for goods and services that directly and indirectly benefit the Arizona economy. During fiscal year 2004, these direct and indirect contributions totaled \$39.6 million while also creating 357 jobs during that same time.*

Finally, returning law-abiding productive citizens to the community avoids the cost associated with future incarceration. A study published by the Department of Corrections in 2003 determined that inmates who participated in ACI work programs were 33.4 percent less likely to return to prison than were inmates who did not.

*Source: Arizona State University Center for Business Research

ADC RECIDIVISM STUDY* Overview and Summary

National Recidivism Picture: More than 95 percent of offenders return to the community; 51.8 percent of those return to prison. (MTC Institute 2003; BJS 2002)

Magnitude: The study involved follow-up of 54,660 inmates released from ADC custody between 1990 and 1999.

Results: Inmates who participated in ACI work programs were 33.4 percent less likely to return to prison than were inmates who did not.

As a direct result of ACI programs from 1999 to 2002:

923 Fewer inmates returned to prison.

\$49 Million were avoided in incarceration costs.

Conclusion: "Prison industry programs were found to be the most effective of all rehabilitation programs in reducing recidivism."

*Recidivism was defined as the return to prison of a released offender for a new felony conviction.

ACI Prison Industry Enterprises Operations Profile



Sodexho-Marriott
Phoenix, Arizona

ACI enterprises consist of two categories of operations: Owned-and-Operated and Public/Private Sector Partnerships. (See Page 4 for a list of Operations by Institution.)

Owned-and-Operated

These operations are primarily dedicated to saving taxpayer dollars directly by supplying many of the needs of the Arizona Department of Corrections and other public agencies at a reduced cost. Through twenty-five owned-and-operated enterprises, inmates gain experience in a variety of manufacturing, service, and agricultural operations.

Manufacturing: Bakery, Bedding, Furniture, License Plates, Garments, Signs, Metal Fabrication, and Wood/Metal Refurbishing.

Service: Graphic Arts, Data Fulfillment, Installation/Support Service, Office Support, Retail Outlet, and Warehousing.

Agriculture: Crop planting, irrigation, maintenance, and harvesting.

Public and Private Sector Partnerships

ACI has twenty-four partnership agreements, providing labor to the private and public sectors.

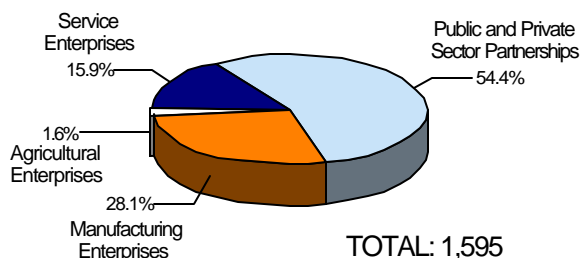
Private Sector: ACI furnishes workers for private enterprises that are unable to meet their work force requirements through the traditional labor market. Some of these businesses have established operations within prison walls, while others remain in the community, with eligible inmates transported to and from the work site.

Public Sector: ACI also enters into contracts with other governmental agencies, such as the Arizona Department of Transportation, Motor Vehicle Division. The use of inmate workers allows government agencies to offer greater services to the community without significant increases in taxpayer support.

TOTAL INMATES EMPLOYED

IN ALL OPERATIONS

(Monthly Average)



Inmates worked a total of 2,547,297 hours during FY 2004.



Agricultural Enterprise
Arizona State Prison Complex—Florence

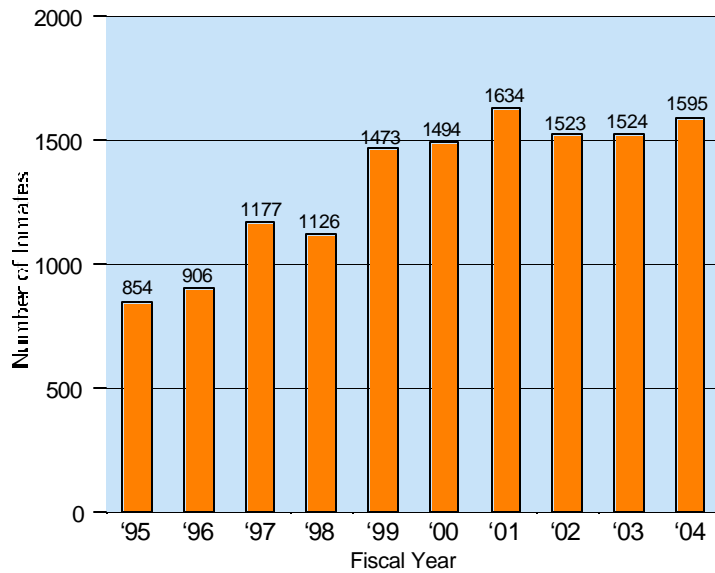
ACI OPERATIONS By Location and Type

Arizona State Prison Complex—Florence	
Agricultural Enterprise (2 Operations)	Metal Fabrication Factory
Bedding Factory	Wood and Metal Refurbishing
Central Warehouse Operations	Prison Retail Outlet
Transportation Division	Furniture Factory
Operations Administration (2 Operations)	Consumable Products Division
Industrial Maintenance	Dixon Farms*
License Plate Factory	Eagle Milling Co., Inc.*
Arizona State Prison Complex—Perryville	
Garment Factory	AZ Department of Transportation—
Data Fulfillment Center	Motor Vehicle Division (2 Operations)*
Graphic Arts Division (2 Operations)	Televerde (2 Operations)*
Copy Service	Sodexho-Marriott*
Arizona State Prison Complex—Tucson	
Sign/Office Products Factory	Farmer's Insurance Company*
AZ Department of Transportation- Motor Vehicle Division*	Solar Industries*
Arizona State Prison Complex—Lewis	
Hickman's Egg Ranch (2 Operations)*	Common Market Equipment Co., Inc.*
Green Acres*	Eagle Milling Co., Inc.*
NexUse Manufacturing, Inc.*	
Arizona State Prison Complex—Winslow	
Kit Manufacturing and Upholstery Plant	Eurofresh*
Arizona State Prison Complex—Douglas	
Garment Factory	Southeast Arizona Medical Center*
Arizona State Prison Complex—Eyman	
Bakery Division	Solar Industries (2 Operations)*
Arizona State Prison Complex—Yuma	
Solar Industries*	Safety Services Co.*
Arizona State Prison Complex—Safford/Fort Grant	
	Eurofresh*
Arizona State Prison —Marana	
	ESB Modular Manufacturing*
Arizona State Prison —Phoenix West	
	Greater Auto Auction*
ACI Central Administrative Office	
Installation/Support Services (3 Teams)	Central Office Operations

* Public and Private Sector Partnerships

INMATES EMPLOYED

(Monthly Average)

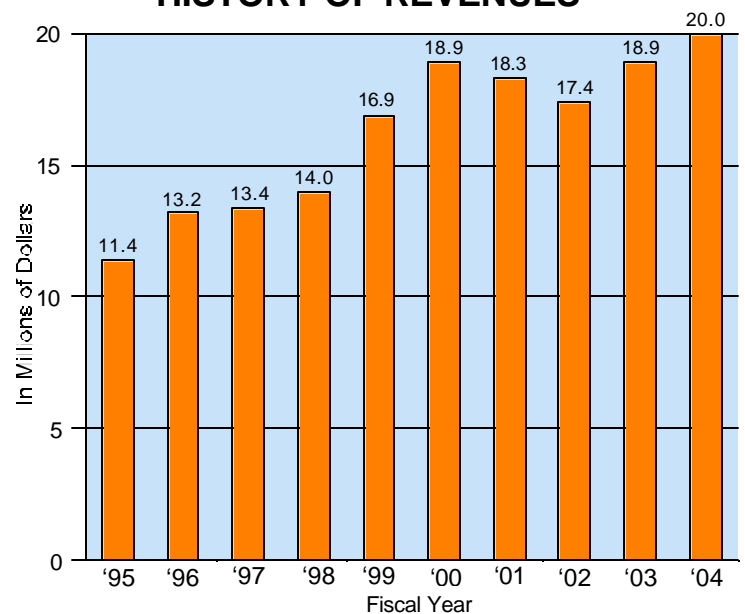


Wood/Metal Refurbishing
Arizona State Prison Complex—Florence



Metal Fabrication
Arizona State Prison Complex—Florence

HISTORY OF REVENUES



STATE OF ARIZONA
DEPARTMENT OF CORRECTIONS
ARIZONA CORRECTIONAL INDUSTRIES
Statement of Net Assets - Enterprise Fund
Fund Net Assets - Enterprise Fund
Year Ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Assets		
Current Assets:		
Cash in Bank and on Hand	44,491	76,471
Cash on Deposit with State treasurer	3,241,734	4,395,382
Receivables:		
Accounts Receivable net	2,509,872	2,275,882
Interest Receivable	14,639	17,536
Inventories	3,299,881	2,676,481
Prepaid Expenses	126,672	52,228
Total Current Assets	<u>9,237,290</u>	<u>9,493,980</u>
Noncurrent assets:		
Capital assets,not being depreciated	692,438	692,438
Capital assets, being depreciated net	1,759,335	2,000,952
Total noncurrent assets	<u>2,451,773</u>	<u>2,693,390</u>
Total Assets	<u><u>11,689,062</u></u>	<u><u>12,187,370</u></u>
Liabilities		
Current liabilities:		
Accounts Payable	428,789	923,543
Accured Payroll and Employee Benefits	194,522	134,918
Accrued Compensated Absences	233,376	248,348
Other Accrued Liabilities	540,973	73,176
Total Current Liabilities	<u><u>1,397,659</u></u>	<u><u>1,379,985</u></u>
Net Assets:		
Invested in capital assets	2,451,773	2,693,390
Unrestricted	7,839,630	8,113,995
Total net assets	<u><u>10,291,403</u></u>	<u><u>10,807,385</u></u>

STATE OF ARIZONA
DEPARTMENT OF CORRECTIONS
ARIZONA CORRECTIONAL INDUSTRIES
Statement of Revenues, Expenses, and Changes in
Fund Net Assets - Enterprise Fund
Year Ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Sales	\$ 19,928,145	\$ 18,847,869
Cost of Goods Sold	<u>17,149,328</u>	<u>17,410,242</u>
Gross Profit	<u>2,778,817</u>	<u>1,437,627</u>
Operating Expenses		
Selling	490,166	529,721
General and Administrative	<u>1,894,817</u>	<u>1,143,613</u>
Total Operating Expenses	<u>2,384,983</u>	<u>1,673,334</u>
Operating Income (Loss)	<u>393,834</u>	<u>(235,707)</u>
Nonoperating revenues (expenses):		
Investment income	72,090	97,047
Net Gain (Loss) on disposal of equipment	18,093	(2,654)
Depreciation expense on discontinued operations	-	<u>(246)</u>
Net nonoperating revenues	<u>90,183</u>	<u>94,147</u>
Net Income	484,017	(141,560)
Capital contributions	-	2,672
Transfers out to other state funds	<u>(1,000,000)</u>	<u>(1,000,000)</u>
Increase (decrease) in net assets	<u>(515,982)</u>	<u>(1,138,888)</u>
Total net assets July 1, 2003	<u>10,807,385</u>	<u>11,946,273</u>
Total net assets, June 30, 2004	<u><u>\$ 10,291,403</u></u>	<u><u>\$ 10,807,385</u></u>

STATE OF ARIZONA
DEPARTMENT OF CORRECTIONS
ARIZONA CORRECTIONAL INDUSTRIES
Statement of Cash Flows - Enterprise Fund
Year Ended June 30, 2004 and 2003

	2004	2003
Cash flows from operating activity:		
Receipts from customers	19,220,516	18,926,739
Payments to suppliers for goods and services	(8,427,784)	(8,687,231)
Payments to employees	(5,155,893)	(4,350,037)
Payments to inmates	(5,671,214)	(4,971,763)
Net cash used for operating expenses	(34,375)	917,708
Cash flows from noncapital financing activities:		
Cash transfers to other state funds	(1,000,000)	(1,000,000)
Net cash provided (used) for noncapital financing activities	(1,000,000)	(1,000,000)
Cash flows from capital and related financing activities:		
Proceeds from sale of capital assets	413	18,757
Purchases of capital assets	(226,615)	(361,780)
Net cash provided (used) for capital and related financing activities	(226,202)	(343,023)
Cash flows from investing activities:		
Interest receipts on investments	74,949	106,265
Net cash provided (used) by investing activities	74,949	106,265
Net increase (decrease) in cash & cash equivalents	(1,185,628)	(319,050)
Cash and cash equivalents, July 1	4,471,853	4,790,903
Cash and cash equivalents, June 30	3,286,225	4,471,853

STATE OF ARIZONA
DEPARTMENT OF CORRECTIONS
ARIZONA CORRECTIONAL INDUSTRIES
Statement of Cash Flows - Enterprise Fund
Year Ended June 30, 2004 and 2003

	2004	2003
Reconciliation of operating income to net cash source/used for operating activities:		
Operating Income (Loss)	411,446	(235,707)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	468,522	643,255
Net changes in assets and liabilities:		
Accounts Receivable	(233,990)	(15,831)
Inventories	(623,295)	(62,643)
Prepaid Expenses	(74,443)	(494)
Accounts Payable	(495,044)	753,351
Accrued payroll & employee benefits	59,604	25,299
Accrued compensated absences	(14,973)	-
Other accrued liabilities	467,797	(189,522)
Net cash provided (used) by operating activities	<u>(34,375)</u>	<u>917,708</u>

The following noncash transactions occurred during the year ended June 30, 2004 and 2003:

Building improvements	94,499	332,820
Construction in progress completed	(94,499)	(332,820)
Depreciation expense for discontinued operations	-	246
Accumulated depreciation related to discontinued operations	-	(246)
Capital assets, net of accumulated depreciation	18,093	(2,654)
Gain (Loss) on disposal of equipment	(18,093)	2,654
Donated Equipment	-	2,673
Capital Contributions	-	(2,673)



CONTACT US:

OUR MISSION

To create opportunities for offenders to develop marketable job skills and good work habits through enterprises that produce quality products and services for our customers.

Arizona Correctional Industries
3701 West Cambridge Avenue
Phoenix, Arizona 85009
602-272-7600

Marketing and Sales
William Branson

Owned-and-Operated
Robert Streeter

Partnerships
Bruce Farley

Hickman's Egg Ranch
Arlington, Arizona